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Shareholder Vigilance and the Role of External Monitoring

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오 윤

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이 논문을 경영학 석사학위논문으로 제출함

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Abstract

Shareholder Vigilance and the Role of External Monitoring

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In order to control agency problem, several corporate governance mechanisms have been invented and used. However, the intensity of the usage of the mechanisms, such as board or directors and external auditing is different among companies. The focus of this research is on external monitoring which has substituting effect for monitoring by the board. The research investigates into the relationship between the ownership structure and external monitoring and finds moderating influence on the relationship. The paper examines 1,078 firms listed in the Korea Stock Exchange in the manufacturing industry for the period between 2003 and 2013 to empirically test the hypotheses on ownership structure and external monitoring. The results shows concentration of ownership has negative association with external monitoring while foreign ownership and group affiliation are associated positively. It was also found that concentration of ownership strengthened the relationship between foreign and group affiliation and external monitoring. The research demonstrates that different incentive and ability each firm possesses have effects on the behavior to adjust agency cost.

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Keywords: Agency problem; Corporate governance; Ownership structure; External monitoring
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1. Introduction

Proposed by Jensen and Meckling (1976), agency theory has received a great deal of spotlight from corporate governance literature. Agency cost is a combination of various costs that arises from separation of ownership and control as the managers, i.e. the agents, who have been bestowed with some decision making authority to delegate the owners, i.e. principals. The misaligned interests and information asymmetry had the principals bear the costs from the separation of ownership and control. Shareholders have devised internal and external corporate governance measures to monitor and control the agents. What determines the monitoring of managers' behavior is the vigilance of non-manger shareholders and other related stakeholders (Ang, Cole, and Lin, 2000).

Naturally, there lies a dilemma between bearing expenses arising from misaligned interest between manager and owner and incurring monitoring cost in order to offset information asymmetry. Then who decides to generate monitoring cost in order to minimize other costs constituting agency cost?

In order to examine the question, it is reasonable to look the characteristics of the principals, since monitoring costs are generated by principals. In such context, this paper investigates the monitoring incentives and abilities of the shareholders and shows how different incentive and ability of the shareholders affect the governance of a firm. Specifically, the research addresses the relationship between the concentration of ownership and external monitoring and moderating role of ownership and firm characteristics.

Monitoring and controlling the management is one of the main roles of the board of the directors. Nevertheless each board has different incentives and abilities to monitor and control accordingly to the board composition (Hillman & Dalziel 2003) which results in different monitoring outcomes. When the incentives of the board members are aligned to that of shareholders, the board is more likely to monitor more intensely (Jensen & Meckling, 1976).

The shareholder's incentive (the amount of their investment) and monitoring ability (type of ownership) therefore will affect the intensity of internal and external monitoring (Kaplan and Minton 1994).

Amongst various apparatus to monitor the managerial activity is external auditing, as opposed to internal monitoring (e.g. corporate governance and concentration of ownership). Since external monitoring can substitute for internal monitoring (Rediker & Seth, 1995), shareholders who do not find internal monitoring by the board sufficient will seek for external monitoring instead.

The degree of external monitoring will be measured by audit fee charged for external auditing service provided by the auditors each fiscal year. Audit fee has been a widely used proxy to measure the quality of external auditing (O'Sullivan 2000; Hay et al. 2008).

This paper aspires to examine the differing external monitoring behavior accordingly to the firm's ownership structure. The paper inspects how incentive to monitor and ability to internally monitor determined by the characteristics of ownership structure affect the external monitoring behavior. The paper hypothesize that concentration of ownership will negatively affect external monitoring while foreign ownership and group affiliated management are positively associated with external monitoring. Then the research further looks at the moderating effect of concentration of ownership on the relationship between ownership characteristics of a firm and external monitoring behavior. In order to conduct the research, the paper uses random effects longitudinal cross-sectional regression model to analyze 1,078 listed firms in the manufacturing industry which operated from 2003 to 2013.

The results confirmed that firm with more concentrated ownership spends less on external monitoring than the firms with dispersed ownership and firms with higher foreign ownership spent more expense on external monitoring. In addition, business group affiliation was positively associated with external monitoring. The results also showed that ownership concentration had moderating effect on the relationship between foreign ownership and business group association.

2. Theory

Agency problem and monitoring

Agency cost, which arises from the separation of ownership and control and largely stems from differing interest and information asymmetry, as explained by Jesen and Meckeling (1976), is one of the most popular research topics to be researched. Agency cost comprises of largely three types of costs that arises from separation of ownership and control: 1) Monitoring cost, 2) bonding cost (cost that comes from aligning agent's interest with that of the principals by providing several incentives), and 3) residual cost (the amount of wealth not captured by the principal due to misaligned interest) (Jensen & Meckling 1976).

Shareholders have sought to monitor and control the agents (i.e. managers) who are given certain authorities to control the management. Amongst several roles of the board of directors—mainly composed of members inside and outside of the firm—is the monitoring activity; the board of directors are motivated to protect the shareholder rights.

There are several internal and external mechanisms to mitigate the agency problems such as threat of takeover or efficient labor market, monitoring by outside shareholders and the board of directors, and management share ownership (Jensen & Mecking 1976; Demsetz & Lehn 1985; Rediker & Seth 1995). A regulatory auditing service functions as an external monitoring that can substitute for internal governance mechanisms (Watts & Zimmerman, 1983; Rediker& Seth 1995)

The vigilance of board of directors is a widely studied area (Adams et al., 2010; Johnson et al., 1996). And there has been extensive research on board of director's effectiveness of monitoring role has been widely discussed (Lipton & Lorsch, 1992; Jensen, 1993; Ryan & Wiggins, 2004). The more independent a board is the better shareholders' interests are reflected (Cotter, Shivdasani, and Zenner, 1997). Carcello et al. (2002) found more independent, expertise, and diligent board spend more audit fee in order for protection of reputation capital and shareholder interests. However, the board serves other purposes and is not bound to monitoring role; board have cooperative relationship with the management and acts as advisor while it also monitor the management unless it is a dual board system (Adams and Ferreira, 2007). Hence, it makes it difficult to observe the pure monitoring function of board of the director.

Therefore, assuming the substitution effect of external monitoring (Rediker & Seth, 1995; Desender et al., 2013), the research focuses on external monitoring aside from other internal monitoring mechanisms.

The shareholder vigilance

Vigilant shareholders who may or may not have been appropriately represented in the board may affect the board to spend more on external monitoring.

Ownership structure matters—who owns and how much they own—as to different shareholders have different incentives and ability to monitor and control the management. Intuitively, higher incentive to monitoring is expected be associated with stronger vigilance and therefore result in higher inclination towards extensive external auditing service.

However the incentive to monitor and control will be moderated by the ability to monitor as well (Desender et al., 2013) since board may fail to perform its expected monitoring function because independent directors have not been sufficiently represented (Hambrick & Finkelstein, 1995).

When the ownership structure is dispersed, it could be assumed there lies information asymmetry between the management and outsiders can be large and thus having external shareholders to rely more to external auditing whereas large shareholders (Aguilera, 2005; Desender et al. 2013).

However it could be regarded that dispersed ownership will incur less incentive to monitor as shareholders possess small stake and can more effectively control their risk and return individually by investing in portfolio and nonetheless lacks ability to effectively monitor the management in the first place. On the contrary, controlling shareholders do not rely relatively much on the board (Bohinc and Bainbridge, 2001).

There has been a growing literature highlighting the relationship between ownership structure and residual loss. Externally controlled and managerial controlled firms have different governance processes and management remuneration system (Hambrick & Finkelstein, 1995). Control of ownership and performance has been widely researched (Demsetz & Lehn, 1985; Morck et al., 1988; McConneli and Servaes, 1990). These researches gives implication that control systems according to ownership structure affects the residual loss that constitutes agency cost to the owners.

Yet there has been lack of investigation on the effects of ownership structure on the degree of monitoring (Desender et al., 2013).

This the paper aims to shed light on the ownership structure's influence on external monitoring in the hopes of understanding the incentives and abilities to monitor according to the shareholders.

Monitoring and external auditing service

Audit fee has been a well-researched proxy that represents the audit quality in accountings literature. Simunic (1980)'s seminal research theoretically approached the pricing of audit service and argued that audit fee is a combination of several factors that determine the audit quality, such as audit time. Carcello et al. (2002) used audit fee to measure external monitoring quality.

A stream of research has studied the implication of audit fee in the context of external auditing service as a corporate governance measure (O'Sullivan, 2000; Carcello et al., 2002).

The regulatory characteristics of auditing that it is mandatory for certain level of firms to receive external audit may be questionable, however there has been bountiful research regarding the determinants of audit fee and especially on the relationship between ownership structure and audit fee in accountings field (Lee & Kim, 2005; Kim et al., 2010; Park, 2012; Kim & Kim, 2012). Nevertheless, it is regarded that approach to link audit fee with corporate governance has been scanty in corporate governance literature before Desender et al. (2013)’s research.

3. Hypotheses

Concentration of ownership

Different types of ownership structure are to have different preferences of monitoring the management. The higher the shareholders’ incentives and the lesser the ability, the vigilance is expected to be higher and reliance to external monitoring will be maximized.

It is expected that large owners have higher incentives as their stake is relatively higher since large shareholders have more incentives to prevent residual loss. However it could be intuitively considered that large shareholders have ability to do monitor via board and other internal monitoring mechanism, thus have less reliance on external monitoring. Therefore, the paper assumes that concentrated ownership is associated with less extensive external monitoring.

Hypothesis 1a: *Firm with more concentrated ownership structure will be associated with lower external monitoring.*

Foreign ownership

Foreign investors are not normally represented as a board member in Korean context. Rather, it could be assumed that strong presence of foreign investors may increase external monitoring in order to substitute for their lack of representation on the board. Since shareholders cannot internally or directly monitor and control the management it could be predicted that they have lower level of internal monitoring ability.

For example, 20 percent of the total share of KPX Chemical is owned by foreign corporation and foreign institutional investor, who are not represented in the board of the directors. It indicates that one fifth of the shareholders do not have ability to directly monitor the management. Another example is Hyundai Elevator. The largest five shareholders controls about 78 percent of the total share and the largest shareholder Schindler Deutschland Holding holds 35 percent of the total share. Again, Deutschland Holdings is not represented on the board of directors of Hyundai Elevator; it therefore has to rely greatly on the external monitoring.

Also, it could be assumed they also have incentive to monitor in order to control for uncertainties due to lack of information. The research consequently hypothesizes: the stronger representation of foreign investors, the higher external monitoring.

Hypothesis 1b: *Higher foreign ownership will be associated with higher external monitoring.*

Group affiliation

One of the firm characteristics that many Korean firms have is chaebol, a unique from business group. Granovetter (1995) defines business groups as "collections of firms bound together in some formal and/or informal ways, characterized by an 'intermediate' level of binding (p. 96)." Business groups have personal and operational relationship and chaebol therefore can be classified as a form of business group (Granovetter, 1995; Chang, 2003). Chaebol stem from a single family or allied family and resources shifts within the group cohesively and the family owns and manages at the same time (Granovetter, 1995). Ownership wise, these group affiliated companies are held directly or indirectly by an individual or family tied together through pyramid and cross-shareholding (Chang, 2003, Granovetter, 1995; La Porta et al. 1999). Group affiliated companies, although legally independent from the parent company, operate like a division under the parent company and are controlled by the group head quarter and have advantage of having choice to resort to internal resourcing (Chang & Hong, 2000).

Parent companies desire to control the affiliated companies more tightly. Since the affiliated companies are legally separate entity from the parent company, the parent company aspires to strengthen the control of their affiliated companies by tightly monitoring each affiliated company.

Hypothesis 1c: *group association will be associated with higher external monitoring*

Moderating effects of concentration of ownership

While different types of ownership and firm characteristics have different objectives and exert demands for monitoring (Desender et al., 2013), it is expected that the degree of concentration will moderate the relationship between ownership and firm characteristics and external monitoring. The research hypothesizes about the impact of concentration on the relationship between foreign ownership and group affiliation and external auditing.

The paper previously expected that high proportion of foreign owners will be associated with higher monitoring cost. While having weak representation on the board low ability to directly monitor the management, foreign owners will have higher distrust in the management when the concentration level is high. Therefore, foreign owners who have little ability to monitor directly will have higher incentive will as well. Thus, the vigilance of foreign shareholders will be higher and spend more external monitoring when the ownership is more concentrated.

Hypothesis 2a: *When the ownership is concentrated and foreign ownership ratio is high, the relationship between foreign ownership and external monitoring will be strengthened.*

In the case of group affiliation, there are some cases when ownership is fairly diffused and cases when ownership is strongly concentrated. When ownership is concentrated to the parent company, the parent company will be less motivated to incur cost to externally monitor the affiliated companies since they will have tighter direct control of the company. These firms will have influence on the affiliated companies through such devices as internal resourcing and strong monitoring (Chang & Hong, 2000). Therefore, the paper examines whether concentration of ownership moderate the relationship between group affiliation and external monitoring.

Hypothesis 2b: *The relationship between group affiliation and external monitoring will be weakened when the ownership is more concentrated.*

4. Methodology

Data

This research examines 1,078 listed companies in the manufacturing industry classified by KCIS-9 code to test the hypotheses. The data was collected for 11 fiscal years from 2003 to 2013. The audit fee data and the board data was drawn from TS-2000 presented by the Korea Listed Companies Association and were manually cross-checked individually with the annual reports reported by each company. Concentration and foreign ownership variable and all of the control variables were drawn from Korea Information Service (KIS) database. Group affiliation data was coded as dummy variable based on business groups reported at the Fair Trade Commission's web page. The firms which the audit fee data and ownership data could not be extracted from the annual reports were excluded from the sample.

Variables

Dependent variable

Total audit fee: The dependent variable to measure the extent of external monitoring is total audit fee spent in each fiscal year from 2003 to 2013. Following previous literature that studies audit fee, the research used natural log of the audit fee in the models.

Independent variables

Concentration: The study aggregates all of the shares owned by the 5 largest shareholders reported. It is widely considered that a firm is concentrated when the largest shareholder owns more than 20% of the total share of the firm (LaPorta, Lopez de Silances, and Shleifer, 1999).

Foreign ownership: This research measured foreign shareholder as the total amount of share owned by foreign investors over total shares issued by the firm, averaged throughout the fiscal year.

Group affiliation: The research defines business groups as "a group of companies, more than 30% of whose shares are owned by some individuals or by companies controlled by those individual,(Chang & Hong, 2000, p437-438)" as regulated by Korea's Monopoly Regulation and Fair Trade Act. The research considers a firm as a group affiliated company if the company is listed in the list provided by the Fair Trade Commission.

Control variables

The research included number of control variables that may determine the audit fee. The control variables were all collected for the previous fiscal year before the reporting since the audit fee will be determined by such risk and size elements (O' Sullivan, 2000; Carcello et al. 2002). Risk factors of the firm affect the audit fee since auditors charge higher fees to when the risk is higher (Choi et al., 2010). Risks were measured by the inventory and accounts receivables over total asset (Carcello et al., 2002). The research also included liquidity of the firm as another risk variable that determines the audit fee and when the firm has high liquidity, the risk will be lower thus the audit fee will be lower (Choi et al. 2010). Big 4 auditor implies audit quality difference and premium on audit fee (Choi et al., 2010; Simunic, 1980) therefore, whether the firm received audit service from the largest four accounting firms (SamJeong KPMG, Samil PwC, Deloitte Anjin, Hanyoung Earnst & Young) was controlled in the research. Total asset was also included to control for the size of the firm. Sales was also included in the research to control for the size of the firm.

Table 1. Description of Variables

Dependent variable	
Audit	Natural log of audit fee
Independent variables	
Concentration	The percentage of total amounts of the largest 5 shareholders
Foreign ownership	Foreign ownership percentage
Group affiliation	1 if a chaebol company; 0 otherwise
Control variables	
Size	Total asset.
Big 4 Auditor	1 if Deloitte Anjin, Samil PwC, Ernst & Young Hanyoung or Samjong KPMG; 0 other wise
Risk	((inventory + receivable)/total asset) of the previous year
Liquidity	(current asset/current liabilities) of the previous year

Models

For hypotheses testing, the research used random-effects cross-sectional longitudinal regression method.

The research conducted Hausman specification test to determine between fixed-effects model and random-effects model and the test result suggested fixed-effects model. Nonetheless, fixed-effects estimators cannot be computed in presence of time-invariant variable (a variable that does not change over time) because time invariant variables may be perfectly collinear with the fixed-effects of the group and therefore hinder the estimation of fixed-effect estimator (Green, 2012). Since one of the independent variables of interest - business group affiliation - is a time-invariant variable, it may not be appropriate to use a fixed-effects model for this analysis. In other words, 'Group affiliation' variable can have perfect collinearity issue with the estimated fixed-effect for each firm and prevent from computing the fixed-effect estimator.

The models that were used in the research to test the hypotheses were developed based on prior literature that analyzed pricing of audit service (Simunic, 1980; O' Sullivan, 2000; Carcello et al. 2002; Park 2010).

Model 1 (With only the control variables)

$$Auditfee = \beta + \beta_1 big4 + \beta_2 risk + \beta_3 totalasset + \beta_4 liquidity$$

Model 2 (For hypothesis 1)

$$Auditfee = \beta_0 + \beta_1 concentration + \beta_2 \mathrm{for}eign + \beta_3 chaebol \\ + \beta_4 big4 + \beta_5 risk + \beta_6 totalasset + \beta_7 liquidity$$

Model 3 (for hypothesis 2, with interaction term)

$$ditfee = \beta \ + \beta_1 concentration + \beta_2 \mathrm{for}eign + \beta_3 concentration \times \mathrm{for}eign \\ + \beta_4 big4 + \beta_5 risk + \beta_6 totalasset + \beta_7 liquidity$$

$$ditfee = \beta\ + \beta_1 concentration + \beta_2 chaebol + \beta_3 concentration \times chaebol + \beta_4 big4 + \beta_5 risk + \beta_6 totalasset + \beta_7 liquidity$$

5. Results

Table 2 shows the descriptive statistics and the correlations between the variables. It shows that firms paid audit fee around 86,056,130 won in average. Firm that spent the least amount of audit fee spent as little as 10,000,000 won and the firm that has spent the largest amount spent as much as 5,300 million won. Regarding the ownership structure, the average of the total share of the largest 5 shareholders is 48.73%

of the total share. Roughly 6.7% of the total share is held by foreign shareholders and 9.5% of the firms in the sample are affiliated in business groups.

The average sales of a firm is 571 billion won while the average total asset is 539 billion won. Inventory and receivables take up as much as 24.5% of the total assets on the average. It also showed that 48% of the companies contracted with big 4 auditors.

Regarding the correlations coefficients between audit fee and the independent variables, concentration and foreign shows expected signs. However, unlike the expectation that group affiliated companies and audit fee would be negatively correlated, the correlation coefficient shows positive sign.

The paper further analyzed collinearity to check multicollinearity issue and the variance inflation factor (VIF) showed the values were all under 1.25 indicating no multicollinearity issue.

Table 2. Descriptive Statistics and Correlation Matrix

	Obs	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6	7	8	9
1. Audit (ln)	9,435	11.0304	0.6512	9.2103	15.4832	1								
2. Concentration	7,791	0.4874	0.1649	0	0.9999	-0.0665 ***	1							
3. Foreign	8,953	0.0672	0.1171	0.0001	0.9335	0.4310 ***	0.0563***	1						
4. Chaebol	10,232	0.0959	0.2944	0	1	0.5409 ***	-0.0543***	0.2510***	1					
5. Big4	10,232	0.4808	0.4997	0	1	0.3428***	-0.0793***	0.2327***	0.2528***	1				
6. Risk	10,172	0.1916	0.2459	0	3.3	0.2954***	-0.1004***	0.0551***	0.0929***	0.0972***	1			
7. Sales	10,172	571 bil	3510 bil	491,000,000	133,000 bil	0.4756***	-0.0793***	0.3001***	0.3275***	0.1250***	0.0877***	1		
8. Total Asset	10,166	539 bil	3530 bil	30,700,000	141,000 bil	0.5030***	-0.0878***	0.3048***	0.3587***	0.1347***	0.0810***	0.9748***	1	
9. Liquidity	10,172	61.5091	3687.121	0.03	261,086	-0.0288***	0.0138	-0.0098	-0.0053	-0.0131	-0.0126	-0.0481***	-0.0025	1

* p<0.05, **p<0.01, ***p<0.001

Variance Inflation Factor

Variable	VIF	1/VIF
Chaebol	1.25	0.797462
Total Asset	1.24	0.808088
Foreign	1.2	0.829997
Big 4	1.1	0.90946
Liquidity	1.05	0.952919
Risk	1.04	0.962346
Concentration	1.02	0.984141
Mean VIF	1.13	

Table 3 discusses the results from the regression analysis. Model 1 shows the result from ordinary least squared regression model. Model 2 shows the model that includes only the control variables. The results show that big 4, risk, and total asset are positively related with audit fee and liquidity is negatively associated with audit fee.

Model 3 tests hypothesis 1a, b, and c. The random effects model that tests for the hypothesis 1a, which predicts a negative association between concentration rate and audit fee is moderately supported. The fixed-effects model also supports the hypothesis. It is confirmed that, as the results show, company spends less on external monitoring when the ownership is more concentrated.

The random effects model that tests hypotheses 1b, also strongly supports the hypothesis that foreign ownership is positively associated.

Table 3. Regression Results

	Model 1	Model 2		Model 3		Model 4	
	OLS	Controls		H 1		H 2	
		FE	RE	FE	RE	FE	RE
Independent Variables							
Concentration	-0.0762 **			-0.1051 **	-0.0967 **	-0.1398 ***	-0.1026 **
	(0.0380)			(0.0438)	(0.0398)	(0.0505)	(0.0460)
Foreign	1.2540 ***			0.1961 ***	0.4916 ***	-0.2494	0.2013
	(0.0581)			(-0.0693)	(0.0627)	(0.1777)	(0.1712)
Chaebol	0.7260 ***			-	0.8975 ***	-	1.0625 ***
	(0.0197)			-	(0.0419)	-	(0.0783)
Concentration x Foreign						0.9420 ***	0.5952 *
						(0.3478)	(0.3329)
Concentration x Chaebol						-0.2926 **	-0.3376 **
						(0.1502)	(0.1380)
Control Variables							
Big4	0.2287 ***	0.1340 ***	0.1603 ***	0.1513 ***	0.1683 ***	0.1509 ***	0.1680 ***
	(0.0116)	(0.0089)	(0.0088)	(0.0109)	(0.0103)	(0.0109)	(0.0103)
Risk	0.5590 ***	0.4353 ***	0.4584 ***	0.3776 ***	0.4148 ***	0.3764 ***	0.4140 ***
	(0.0226)	(0.0157)	(0.0156)	(0.0195)	(0.0188)	0(.0194)	(0.0188)
Total Asset	0.0000 ***	0.0000 ***	0.0000 ***	0.0000 ***	0.0000 ***	0.0000 ***	0.0000 ***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Liquidity	-0.0226 ***	-0.0000 ***	-0.0000 ***	-0.0031 *	-0.0063 ***	-0.0030 ***	-0.007 *
	(0.0019)	(0.0000)	(0.0000)	(0.0016)	(0.0016)	(0.0016)	(0.0016)
Constants	10.7419 ***	10.8562 ***	10.8138 ***	10.9554 ***	10.7819 ***	10.9866 ***	10.7848 ***
	(0.0204)	(0.0063)	(0.0144)	(0.0223)	(0.0238)	(0.0248)	(0.0259)
N	6308	9391	9391	6308	6308	6308	6308

Standard errors in parantheses

* p<0.05, **p<0.01, ***p<0.001

The outcome of the fixed effects model is consistent with the random effects model. Hypotheses 1c expected positive association between group affiliation and external monitoring cost. Hypotheses 1c that group affiliated companies spend more external monitoring cost was tested to be significant and supported.

Model 4 tests for the moderating effect of ownership concentration on foreign ownership and group affiliation as hypothesized in hypotheses 2 a and b.

The interaction term of concentration and foreign from the regression result of Hypothesis 2a shows positive coefficient which is statistically significant. The result supports Hypothesis 2a that when the firm is concentrated with high foreign ownership, the relationship between the foreign ownership of the firm and external monitoring will be strengthened. Hypothesis 2b proved statistically significant and negative as hypothesized. The result of Hypothesis 1c and 2b together can be interpreted; while group affiliation alone show positive association with external monitoring, concentration of ownership reverses the positive association to negative relationship.

Table 4. Regression Results (Sales to control size)

	Model 3		Model 4	
	H 1		H 2	
	FE	RE	FE	RE
Independent Variables				
Concentration	-0.1089***	-0.1018 **	-0.1395 ***	-0.1022 **
	(0.0440)	(0.0400)	(0.0507)	(0.0462)
Foreign	0.1816 ***	0.4749 ***	-0.2741 **	0.1751
	(0.0695)	(0.0630)	(0.1783)	(0.1719)
Chaebol	-	0.9158 ***	-	1.1126 ***
		(0.0423)		(0.0785)
Concentration x Foreign			0.9627 ***	0.6133 *
			(0.3491)	(0.3342)
Concentration x Chaebol			-0.3490 ***	-0.4054 ***
			(0.1506)	(0.1384)
Control Variables				
Big4	0.1509 ***	0.1679 ***	0.1505 ***	0.1675 ***
	(0.0109)	(0.0104)	(0.0109)	(0.0104)
Risk	0.3750 ***	0.4110 ***	0.3739 ***	0.4103 ***
	(0.0195)	(0.0189)	(0.0195)	(0.0189)
Sales	0.0000 ***	0.0000 ***	0.0000 ***	0.0000 ***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Liquidity	-0.0031 **	-0.0063 ***	-0.0030 *	-0.0063 ***
	(0.0017)	(0.0016)	(0.0017)	(0.0016)
Constants	10.9614 ***	10.7863 ***	10.9936 ***	10.7868 ***
	(0.0224)	-0.0239	(0.0249)	(0.0260)
N	6299	6299	6299	6299

Standard errors in parantheses

* p<0.05, **p<0.01, ***p<0.001

6. Discussion

The paper attempted to contribute to the literature on agency theory and especially on the comprehensive understanding of agency costs and firm behavior on the subject matter. The research shed light on the firm's behavior of monitoring by examining the monitoring ability and incentive to control determined by the ownership characteristics. Withal, the research leaves room for further development for the future studies.

First of all, the paper only looked at the direct relationship between the shareholder vigilance and external monitoring. However, the vigilance of board should not be neglected. Board characteristics such as CEO duality, board externality, and size can be considered in the following study in order to complete a more integrated study of internal and external corporate governance mechanisms.

Furthermore, the research had a rough definition of concentration of ownership in the research design. However, the research design could be more developed by investigating into the pyramid and cross holding structure and identifying the controlling shareholder and the type of the controlling shareholder (La porta et al., 1999; Desender et al., 2013).

7. Conclusion

The research, in attempt to find evidence on the influence of shareholder vigilance in terms of their incentives and ability, analyzed the relationship between ownership structure and external monitoring measured by audit fee. Following a stream of research on external monitoring, external monitoring was measured as the amount of audit fee paid to the accounting firm. The research conducted random-effects longitudinal cross-sectional regression on a research sample of 1,078 listed firm in manufacturing industry over a time frame of 11 years from 2003 to 2013. The research confirmed negative influence of concentration of ownership on the level of external monitoring while foreign ownership and group affiliation showed positive association with external monitoring. The research further examined the moderating effect of concentration of ownership on the relationship between foreign ownership and business group affiliation and external monitoring.

The analyses contributed in confirming the influence of incentive and ability to monitor determined by the ownership characteristics and firm characteristics on external monitoring.

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논 문 초 록

주주의 경계심과 외부 감시의 역할

대리인 문제를 통제하기 위하여서는 다양한 기업 지배구조 메커니즘이 사용된다. 하지만 이사회나 외부 감사와 같은 그러한 기업 지배구조 메커니즘이 사용되는 정도는 기업의 특성에 따라 능력과 동기가 다르므로 다른 양상을 보일 것이다. 본 연구는 기업 소유구조와 외부 감시 간의 관계를 알아본 것으로서, 기업 활동 감시 기능을 갖는 이사회의 역할을 대신하는 외부 감시에 초점을 맞춰 가설을 세우고 그것을 검증하였다. 본 연구는 2003년부터 2013년까지 한국거래소에 상장된 1,078개의 제조업 기업들의 경우를 대상으로 기업 소유구조와 외부 감시의 관계에 대한 가설을 검증한다. 실증연구의 결과에 따르면 외부 감시는 기업 소유의 집중도와 음의 상관관계를 보였고 외국인 지분이나 그룹 계열 소속과는 양의 상관관계를 보인 것으로 나타났다. 더불어, 소유의 집중도를 조절 변수로 사용해서 외부 감시와 외국인 지분이나 그룹 계열 소속 사이의 관계를 조절해본 경우 소유가 집중되어 있을수록 외국인 지분과 외부 감시 사이의 관계는 더 강해졌고 그룹 계열 소속 변수와 외부 감시 사이의 관계도 더 강해졌다. 본 연구는 경영활동 감시를 위한 능력과 동기가 기업마다 다르다는 보여주었다는 데에 의의가 있다.

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주요어 : 대리인 문제, 기업 지배구조, 기업 소유구조, 외부 감시

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